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An empirical investigation into the corporate culture of UK listed banks

Abstract

This paper reports findings from investor engagement into corporate culture at UK listed banks. In 2014 and 2015 interviews with bank practitioners revealed the following six elements as fundamental to improving bank culture; simplification of the business, corporate purpose, organisational culture, staff in the business, customer experience, and focus and engagement by the Chair of the board. The study designed baselines to capture where banks are in absolute and relative terms in relation to the six elements. Culture performance over the 24 months of the study was examined.

Banks that made most improvement during the investigation activated culture predominantly within the business by empowering the department most apt to handle it. Centring the culture programme within the business was associated with a focus on the middle and the grassroots level of the organisation. Banks that made least improvement activated culture principally 'from the top'. Centring the culture programme at the top was associated with a focus on control, conformance, and structure. The finding of relatively greater performance when culture programmes were activated within the business contrasts sharply with recommendations from regulators and conventional wisdom that the establishment of corporate culture is necessarily a top down exercise.

Key words: banks, conduct, culture, metrics, measures, investment management, pension funds.

1: Introduction

A strong belief to have emerged in recent years has been that culture within banks is both a weakness and a potentially systemic risk. Improved corporate culture is essential to restoring public trust in the banking system, encouraging long-term saving, and enhancing financial stability (Financial Stability Board, 2014; Financial Reporting Council, 2016; Banking Standards Board, 2016; Prudential Regulatory Authority, 2016; and Financial Services Consumer Panel; 2016).

In addition to the broad economic interest story that banks enable economic growth, the centrality of the banking industry to all our daily lives makes corporate culture a public interest story. In the last few years banks have paid more than £200 billion in fines and damages worldwide as a result of inappropriate conduct (Conduct Costs Project, 2016), leading misconduct and culture to rapidly rise up the hierarchy of key financial risks when investing in banks. With fines and redress since the financial crisis covering a growing proportion of the banking industry, strong views are being expressed that bank corporate culture needs to be urgently addressed (City Values Forum, 2016; Banking Standards Board, 2016).

Regulation may provide part of the answer, but while regulators can regulate structure, they cannot directly regulate culture, values, attitudes, or behaviour. It's up to others, including investors, to also exert pressure on banks to make improvements. Around the world, corporate governance codes often mention culture, values, and conduct in their guidance. Investors incorporate these good practice steers and recommendations through their stewardship. The UK Stewardship Code encourages large investors to engage with companies to discuss corporate governance issues, with the ultimate aim of improving long-term risk-adjusted returns for their clients. Voting at general meetings and engaging with companies are the key transmissions of investment stewardship.

This study concerns the meetings one large, long-term investor held with officers and directors of UK banks to discuss their culture programmes during 2014 and 2015. Meeting with officers and directors of banks was considered the right approach because the decisions banks are making on culture and culture programmes are largely obscured from public view. Major shareholders are fortunate in the UK to have good access to company boards and can fill information gaps through private conversations¹.

The investor in this study is a pension fund, among the largest in the country by membership, with more than four million members. The pension fund invests in equities mostly via a diversified equity index, meaning it invests in all the large listed banks. The pension fund will continue to hold each bank all the time each remains in the index. This continuous holding period creates a very long term time horizon and motivates the pension fund to expend a great deal of effort on engaging and working alongside companies to try to improve risk-adjusted returns where doing so is cost effective and accretive financially for members.

Key reasons for meeting with officers and directors was to understand culture performance, and to encourage banks to work together to collectively reduce systemic and systematic risk. The pension fund recognises that it's not the only shareholder meeting to discuss culture, but its approach of wanting to see the whole industry improve culture performance is different. Positive change was further encouraged by feeding back results in the form of a report to the Banking Standards Board as well each bank.

The UK makes an interesting case study because a few banks make up a substantial part of what is a relatively large banking sector. Since the financial crisis, misconduct through poor culture has cost UK banks £26.5 billion (Conduct Costs Project, 2016).

The study has three main findings.

¹ While operating within disclosure restrictions about material information.

First, discussion with bank experts in 2014 and 2015 revealed six elements to be fundamental to improving bank culture; corporate purpose, organisational culture, staff in the business, simplification of the business, customer experience, and focus and engagement by the Chair of the board. A hierarchy was identified, with the first three elements having more importance. The study developed baselines to capture in absolute and relative terms where banks were in relation to these six elements. Explanations were derived for each bank's position in relation to each baseline.

Second, during the 24 month of the investigation, significantly greater culture performance was found in banks that activated culture from within the business. Centring the culture programme within the business was associated with a focus on the middle and the grassroots level of the organisation. Least culture performance came from banks that activated culture programmes top-down. Centring the culture programme at the top was associated with a focus on control, conformance, and structure. The finding of relatively greater culture performance when activated within the business is in strong contrast to the recommendation of the UK's financial reporting regulator and conventional wisdom that a key role for corporate boards is to establish culture (FRC, 2014).

Third, the study found culture to be a highly metricised area. There were contradictions and ambiguities with many of the metrics, and this posed difficulties about which to give attention to, and how. Few were unambiguously decision useful. Banks making the largest improvements in culture were those grappling most with, and solving, the ambiguities with metrics. Results suggest that the integration of decision useful metrics and their understandings are at an early stage (Thakor, 2016).

The study makes the following original contributions to knowledge in the subject area:

First, the paper reports new and recent research into how small groups of people – officers, directors, and managers – are designing and delivering culture programmes at UK listed banks, as well as the culture performance achieved. The project, spanning two whole years

between 2014 and 2015, represents a rare insight into an industry-wide attempt to improve motives, action, and outcomes of bank culture. Culture is intangible, and as such often overlooked (Thakor, 2016), and this research contributes to that gap in knowledge through insight and evidence based on direct empirical analysis.

Second, and contrary to conventional wisdom, how and where culture programmes are activated is far more critical to performance than the structure that surrounds it. Structure and standards can help improve culture, but are not nearly enough because culture is about people in the workplace, their actions, and interactions. People together constitute organisational culture. Culture is interpersonal, and embedded by people doing banking day-by-day, which comes from a myriad of close-knit interrelationships and interactions within the organisation. The shift that regulators desire was far more observable in banks that activated culture programmes at the middle and grassroots level of the organisation, where interactions, intent and action occur.

Third, our results rank banks differently than published corporate governance and sustainability ranking from third party service providers, suggesting a focus on culture performance contributes a different perspective to that based on more available public information for corporate governance (Manifest, 2016).

The next section of the paper reviews the literature. Section 3 discusses the sample and data collection. Section four reports the findings, and the final section concludes.

2: Literature

Organisational culture within companies is generally conceptualised as an evolutionary process (Lazear (1995). Culture has been identified as a system of attitudes, customs, norms, traditions, beliefs, convictions, and shared values that define behaviour for organisational members (O'Reilly and Chatman, 1996; Sørensen, 2002). Hofstede (1991)

emphasises that the dimensions of culture are mostly unobservable for they include understandings, meanings, interpretations, feelings, and perceptions. This stands culture apart from other research areas such as compensation or capital structure, about which far more is known (Thakor, 2016). Bouwman (2013) provides an extensive discussion of the organisational culture literature.

One of the key interests of culture within banks is the ability of culture proxies to serve as potential forward-looking indicators of reputation, trustworthiness, and business performance (Dukerich and Carter, 1998; Alsop, 2004; Thakor, 2016). Kreps (1990) hypothesises that a uniform and strong culture is a coordinating mechanism in an organisation, with the mechanism helping to achieve more predictable outcomes via wider social networks, interactions, and cooperation between employees. Also achieved is a more consistent organisational approach to unforeseen contingencies. Multiple cultures or a weak culture can create diminished ability to predict outcomes for any given set of actions by individuals and firms.

Van den Steen (2010a) argues that corporate culture has a homogenising effect on individuals' attitudes, beliefs, convictions, and ambitions. In its absence, heterogeneous attitudes and beliefs lead to diverging views about appropriate action and behaviour.

In addition to more predictable outcomes, more than three decades of research show that the culture of an organisation has a lasting impact on business performance (Deal and Kennedy, 1982; Gordon and DiTomaso, 1992; Kotter and Heskett, 1992). Sackmann (2011) identifies 55 papers published since 2000 that study culture and performance and finds that most support a positive relationship between corporate culture and firm performance.

The largely unobservable nature of culture yet positive attributes make the study of culture within banks particularly significant.

3: Research Methods

The aim of the research was to build a picture from the ground-up. The grounded approach is an empirical method that allows a researcher to adopt a broad view on a subject that is not well understood and to derive theory based upon observation (Barker, 1998). Grounded methods do not detail data collection techniques. Rather, they provide analytical procedures that help the investigator organise and reduce the already collected data to manageable proportions and to ground out frameworks through development, refinement and interrelations (Charmaz, 2000, p510). It's up to researchers to collect good data and provide confidence that reliable sample selection and data collection methods have been undertaken (Charmaz, 2000; Glaser, 1992).

3.1: Sample and data

The investigative population was small, medium, and large UK listed banks. This list is quite short as British banking is highly consolidated. We met all the banks, including Barclays, HSBC, Royal Bank of Scotland, Lloyds, and Standard Chartered, but also broadened out the meetings to include organisations in the unlisted banking sector as well as member associations. The pension fund does not have holdings in credit unions or building societies but a wider inquiry among a broader set of key stakeholders was thought appropriate to help better understand the listed banking sector. These extra meetings included, but were not limited to, the Building Societies Association, Association of Financial Mutuals, Nationwide, Community Development Finance Association, and British Bankers' Association. The pension fund also participated in policy debates at a regulatory and government level where additional information was gained.

During 2014 and 2015 the pension fund met with managers, senior executives and members of the board of directors at each of the major UK listed banks. Responsibility for culture programmes can originate in one of several areas within a bank, and it often took a couple of

meetings to connect with the right people. The pension fund met each bank up to five times. Altogether, 30 meetings were held over the 2 years. The final sample of 30 compares favourably with other studies based on interviews in the financial services sector, including the 16 of Barker (1998), 11 of Hendry et al (2006), and 27 of Holland and Doran (1998).

3.2: Method

The data collection method involved face-to-face semi-structured meeting interviews. Semi-structured interviews have the advantage of being able to explore open-end and wide-ranging questions on pre-determined issues (Barker, 1998). A small number of semi-structured interview questions were constructed. Some changes to the questions were made during the first two interviews. Each new interview embodied the revisions suggested from the previous. By the third meeting no further amendments were made to the broad question areas. Parker and Roffey (1997) suggest that the emergence of an appropriate question set is especially appropriate for dimensions of accounting and finance where there is relatively little existing literature. The first round of interviews with bank experts established the six core elements around which baselines were designed.

A hard copy letter or email addressed to the company secretary was used to request a meeting. At non-executive level we met the chairperson, remuneration committee chair, and directors responsible for risk, internal control, ethics and conduct. At executive level we met the company secretary, investor relations director, director of human resources, and director of change and culture. We also met various managers and advisers. The different locations of responsibility for culture programmes were also found by Montagnon (2016) in relation to business ethics and sustainability.

3.3: Meetings

Most meetings were held at the banks. The same two representatives of the pension fund were common to all interviews. Detailed notes were taken based on a pre-agreed template. Notes of the pension fund representatives attending each meeting were cross-checked, and some areas scored. Early on in the interviews we tested for inter-rater reliability between the two pension fund meeting representatives (Strauss and Corbin, 1998). They are of different gender and nationality but had experience of working together. Their scores had good correspondence and a high reliability score, or Cronbach's Alpha. The broad questions we covered at the meetings were grouped according to the following areas:

- Sense – of where bank staff believed the bank was in relation the culture baselines, sense of the culture performance expected over the next 24 months, sense of the strength and weaknesses of elements of the culture programme.
- Strategy – broad questions asked included where was the culture programme originated, how it was arrived at, was it informed by external advisers or developed inhouse, what made the strategy right for the company, how was the strategy activated, where, and why?
- Scope – broad questions asked from a culture perspective included what business the bank has chosen not to do, what business the bank has chosen to do, the approach to growth and retrenchment of the business, and what are going to be the future entry and exit decisions from lines of business, why and when?
- Design and delivery – broad questions included who designed the culture programme, why is the programme designed the way it is, how's the programme delivered, how do staff at different levels across the company contribute to the programme, how do their results feed back and lead to further change?
- Governance process – broad questions asked included where in the business was the governance of culture owned, whether the process was top-down, bottom-up, and how does the information and learning flow?

- Metrics - what metrics and measures are used to identify the outcomes of the programme?

Meeting notes were written onto a template, which helped to:

- Identify common themes and differences.
- Develop a baseline from which we can measure culture change over time.
- Gather examples of what was working well and what was not.
- Understand what excellent, medium, and poor looks like.
- Collect metrics and measures.

3.4: Data Analysis

Following Hendry et al (2006), attention was paid both to the content and the contexts of the interviews. We looked for repetitions, themes and cross-interview commonalities. These indicate theoretical saturation in areas, and give confidence that emerging frameworks are grounded in the data and capture underlying processes rather than individual company policies. A five step analytical process was used that followed Charmaz (2000). This involved coding and cataloguing, comparative methods, memo writing to construct conceptual analyses, sampling to refine emerging theoretical ideas and links, and integration of the data into the constructed framework.

4: Results

In 2014 and 2015 bank experts highlighted the following six elements as key to improving bank culture:

1. Simplification of the business
2. Corporate purpose

3. Organisational culture
4. Focus and engagement by the Chair of the board
5. Staff in the business
6. Customer experience

Baselines measured where banks are in relation to these six elements. Each of these is now discussed in more detail.

4.1: Simplification of the business

The general consensus was that over the past two decades banks have pursued an acquisitive and growth orientated culture. Businesses became calibrated around expansion, and stretched across markets, jurisdictions and products. Regional businesses were sometimes run as autonomous fiefdoms. Boards had no metrics or measures to inform how quality was changing as each business stretched. When retrenchment or exit occurred, little regard was paid to the effect may have this had on customers and businesses resident in the region or market, for example exit causing a vacuum of local credit availability that high interest money lenders could now serve.

Banks also expanded across products. Several medium size banks were run entirely on a product basis, with products designed to cover as much of the waterfront of potential customer interest. Some retail banks had up to 250 different financial products. Customer relationships that spanned multiple products within different divisions in a bank were often not picked-up, leading to an often inconsistent experience from the customer perspective. The primary unit of measurement was the product and its volume, rather than the customer. Retail banks lost their understanding of where the money is made and who they serve.

All the banks were currently simplifying their business by exiting markets, jurisdictions, and products. Doing so made the business more manageable and governable financially and culturally. Van den Steen (2010b) predicts that expansion and acquisition can cause culture difficulties as two internally homogeneous groups with beliefs and preferences

that differ come together. The probability that employees in the merged firm will share beliefs is lower than what it was in each firm before the merger, leading to cultural challenges for internationally acquisitive banks. This may help partly explain the focus on simplifying businesses as fines for misconduct have grown. In this study simplification involved boards asking:

- 'Is this a market or jurisdiction we want to be in?'
- 'Is this a product or financial instrument we want to deliver or transact in?'

As simplification was virtually guaranteed, boards we spoke to frequently used simplification as a concrete example of culture performance. Narrowing product lines, markets, and jurisdictions was a highly transactional activity and banks seemed to find these types of decisions relatively straightforward. The real motive for simplification may have been financial rather than cultural, for example as a result of high capital requirements on riskier lines of business, or exiting high litigation risk areas to remove the riskier parts of the business.

A significant minority of bank experts mentioned that the intent behind simplification was often the difference between good culture and poor culture. Good simplification culture followed a holistic analysis of impacts on stakeholders. If the overall impact on stakeholders was negative, despite the commercial merits of simplification, it did not proceed. Two banks had decided not to exit from lines of business even though commercial measures suggested the line of business should be exited. Poor simplification culture was decided on commercial grounds only.

Some experts we met believed that simplification should not be linked to culture performance because the simplification taking place has nothing to do with the long-term evolution of organisational culture. Banks were simply 'right-sizing' their business to the prevailing economic-regulatory situation and conveniently citing this as culture. Sceptics believed today's simplification to be the appropriate profit maximising response to prior over

expansion and would have happened regardless of external pressure to improve conduct and culture.

The baseline average for simplification we evidenced was a narrowing of product lines, markets and jurisdictions, plus a re-orientation around the customer as the appropriate unit of measurement instead of the product and volume. Upper quartile culture performance revealed a more holistic analysis behind simplification decisions. Even when commercial measures suggested a line of business should be exited, this sometimes meant not doing so if consumer or stakeholder detriment resulted. Lower quartile culture performance banks focused simplification only on commercial grounds. Banks located in the bottom quartile had little vision about how else to improve culture performance, and simplification served as a common denominator.

4.2: Corporate purpose

Bank experts referred to the term corporate purpose to mean a concise articulation of a corporation's reason for existing. One viewpoint stressed during the course of the research by a significant minority of experts was that corporate purpose provides a compass bearing for culture. Over time, corporate purpose at listed banks has become blurred and no longer provides direction for culture. The experts who held this view stressed that culture is an outcome, with one of the inputs being corporate purpose, which must first be addressed.

The viewpoint continued that traditionally the corporate purpose of banks was easily explained and understood. However, in recent years some banks took the traditional bank model of making an economic return from the spread between loan rates and deposit rates and leveraged it using the wholesale markets to borrow more so they could lend more. By taking more risk, the quantum of interest income and size of profit grew. Other banks diversified their business, establishing new lines of non-interest revenue based around fee income, trading income, and venture income. As non-interest income came to dominate, the

traditional banking function was deemphasised. Taking risk became the common thread running through both the leveraged and diversified banking corporation, but corporate purpose was not refreshed in line with a more extensive leverage and non-interest income based business. Culture started to slowly calibrate around risk, and a highly financialised culture gradually developed involving more risk for more reward. The viewpoint concluded that unless corporate purpose is sufficiently clear to all who work in a bank, culture has no direction other than risk taking. Listed banks need to return to clarity of corporate purpose to achieve improved culture.

A stronger viewpoint was that if a blurring of purpose has been the result of competition among banks, regulators may wish to consider why the forces of competition work differently, and at times counter productively, within the banking sector compared to other sectors, where competition seems not to create divisive culture.

There is an interesting read across to our experience when engaging with companies outside of the banking sector. Very often a one-to-one meeting will start with a one or two slide introduction on the company's core purpose, what customer problem are they in business to try to solve, the product or service they provide. For example, large pharmaceutical companies talk about their purpose being to provide essential medicines. They would often also discuss their social responsibility of ensuring access to medicines. Not one engagement in this research started with a listed bank mentioning corporate purpose.

There was further confirming evidence of the experts' strong viewpoint on corporate purpose. When asked what the bank's purpose was, different people at the same bank would often give quite different responses. Oftentimes, taking risk, serving customers, returns for shareholders, and profit were mentioned, but these are outcomes of a purpose, not a purpose per se. We asked for a single short-word sentence of corporate purpose. Many board directors were unable to provide similar responses.

Might evidence that banks struggle to articulate one corporate purpose, while large, multinational companies in other sectors do not, provide some support to the strong views some experts had about the need for a clear corporate purpose in the listed banking sector?

The baseline evidenced was a low ability to define corporate purpose. Staff at upper quartile banks were more consistent in their definitions about corporate purpose and there was some similarity of word use within definitions. We did not statistically test for the consistency of word use. At lower quartile banks, officers, directors and managers gave wide ranging of definitions, most of which were action related such as taking risk, making returns for shareholders, and generating profit. There was very low consistency of word use.

4.3: Organisational culture

Culture programmes were new to banks. There was general agreement that with long-term commitment organisational culture was amenable to change. Culture programmes often involved modifying the structure of organisational responsibilities, with a new non-executive board role on culture, an expanded role for the Group Chief Risk Officer, higher compliance headcount, specific roles within human resources, and a culture role for internal audit. Other structures included balanced scorecard remuneration and a reduction or removal of volume based remuneration.

One viewpoint stressed by many experts was that structure alone is not enough. Culture is embedded by people doing banking day-by-day, which comes from a myriad of inter-relationships and interactions at a grassroots level, which themselves are often based on deeply-held assumptions, values and learned patterns of behaviour. The viewpoint continued that to get to the heart of culture and provide the shift that banks and regulators desire, much more effort needs to be expended at the middle and grassroots level of banks where inter-relationships, interactions, intent and action occur.

Culture is mentioned in the preface to the UK Corporate Governance Code (FRC, 2014). The preface mentions that a task for the board is to set the 'tone from top' by establishing the culture, values and ethics of the company. This leads to an understandable propensity for boards to 'own' culture, but this study finds that when culture programmes were originated and activated at board level, culture underperformed compared to when it was activated from within the business. One explanation for this result is that the board is located at arms-length, and charged with looking beyond day-to-day issues, while culture is interpersonal and day-to-day. The success stories we encountered featured departments, in particular the human resources department, acting free from the formality of the board. Culture change was more innovative and dynamic when originated and activated from within the business. While responsibility for culture may ultimately have to be owned by the board, culture performance improved when boards were less involved in design and activation. Our findings suggest that the vital role for the Chair and the whole board is focus, engagement, and trained questions about the culture programme designed and delivered by the department most apt to handle it. A board can set mission, values, and purpose, but there is a danger of reductionism to believe a board can simply set culture from the top.

The people we discussed culture with at banks were mostly late career white British men and women of relatively senior working age. On first impression there was almost no diversity other than gender, but as the meetings evolved significant diversity of thought and an interesting collage of views became apparent. It was striking to see so few young or non-Anglo Saxon origin professionals appointed to run culture programmes within banks. Among late-career leaders of culture we encountered thoughtfulness, deliberation, and mindfulness, while among mid-career and younger professionals we encountered high energy, enthusiasm, and greater implementation orientated culture programmes. More culture performance was observed in banks that had not followed the normal route of identifying a skill gap, appointing a late-career senior leader to develop, perhaps with external board adviser input, and having the board direct the programme.

One, uniform, organisational culture was the ideal goal, but views differed about the achievement of this goal. Some bank experts believed a single culture was achievable, but in the absence of an enduring culture programme, larger and more multi divisional banks were thought likely to develop subcultures. Experts within large, international and complex banks put a low likelihood of achieving one, uniform, culture, but most still thought that the best course of action for a culture programme was to continue as if one organisational culture was achievable. Second best did not mean simply accepting different divisional cultures. One large, international, multidivisional bank thought one culture was neither achievable nor worth pursuing. The board had concluded to accept multiple cultures and to contain culture disparity through implementing an internal control environment that included conformance controls for managers and staff. The conformance effort mostly involved a cascade of communication from the top and interactive modules for management and staff to read, complete, and implement.

In recent years UK boards have come under pressure to use consultants less but on culture there was significant use of external advisers. Banks unable to find inhouse solutions to culture problems took greater input from advisers. A small minority of banks arranged for us to meet their advisers, and it became clear that the ideas and opinions of a very narrow pool of advisers circulate the boardroom of several major banks. In the last few years one individual adviser alone had shaped culture at three major UK listed banks, plus other large overseas listed banks with a substantial UK presence. It was difficult to see how this concentration of influence from such a narrow pool of people within very large banks in the UK could benefit the sector.

The organisational culture baseline took into account where in the business the culture programme was originated, activated, its breadth, embeddedness within the business, and pipeline of future culture work. The baseline average was a large focus on top-down structure that involved greater use of internal audit, Chief Risk Officer, and a control environment. Baseline banks took input from external advisers. Control metrics included

the proportion of staff attending seminars and teach-ins, completion of on-line modules, and the proportion of total remuneration based on ethics and integrity. There was a limited pipeline of future culture work and little long-term commitment. Upper quartile banks made little or no use of advisers and there was far more focus within the business at the middle and grassroots level. There was a strong pipeline of future culture work. There were attempts to directly measure cultural shifts in the understandings, meanings, beliefs, and interpretations of staff. Lower quartile banks were overwhelmed about where to begin work on culture, and focused on the more tangible area of conduct rather than culture itself.

4.4: Focus and engagement by the Chair of the board

All the Chairpersons we met fully supported the creation of the UK Banking Standards Board, an independently led body that promotes high standards, including culture, across the UK banking industry.

Typical meetings with Chairpersons less engaged on culture revealed little about intent, motivation, choice, decision, and action. One didn't gain much of a grasp about culture performance. Conversations usually involved listening to the Chair talk about the control environment established by the board.

So much more insightful was dialogue with Chairpersons fully engaged on culture. Conversations would flow from which group of people are motivating other people, and where attention is paid and not paid, through what actions are being fostered and inculcated throughout the bank, to how outcomes of a particular programme of work are being measured.

The baseline average we encountered for the focus and engagement by the Chair of the board was a dispassionate conversation about structure. The conversation tended to focus on simplification, markets, and customer metrics as indicators of culture performance. At

upper quartile banks the Chair of the board spoke unprompted with knowledge, acumen, and passion about culture performance, its delivery and performance, and spoke with equal ease about top down structure and behaviour within the business. There was greater focus on staff as the fulcrum of organisational culture. At lower quartile banks the Chair of the board was not available. Culture appeared to be of little focus for the bank.

4.5: Staff in the business

Staff are the heart of culture, as well as key touch points for customer experience. The banks we met wanted staff to have greater competence, professionalism, integrity, diversity of thought, and ability to break through existing ways of doing. Patel's (2014) interviews with professional bodies reports similar results. One part of delivering on that intent was to recruit people who'd taken and passed appropriate exams, who were members of a relevant professional body, and who had different skill sets. Some banks were purposefully hiring from outside the financial services sector to bring in new types of people and personality, particularly within areas such as human resources, change management, and business development. Those who'd joined culture programmes from outside the sector had many ideas they were hoping to take forward. The other part of delivering on the intent was to raise competency among current staff and signal that aiming higher is part of what professionalism and performing effectively now means.

Professionalization involved continuing workshops, seminars, training programmes, refresher courses, and exams. Staff metrics tracked recruitment and professionalization. Metrics included the number of refresher courses carried out, training programmes completed, memberships of professional organisations, exams taken and passed, and an overall average for the professionalization of staff.

Staff were also being encouraged to speak-up about moral and ethical issues, the work environment, colleagues, grudges, likes, and dislikes. Personal conduct and whistleblowing cases were on the rise.

Several board members were uneasy, nervous even, about whether a step too far had been taken towards honesty, and an open environment within banks. The problem for the directors was not with making a virtue out of honesty, rather it was the potential distraction to the business and amount of board time taken from making honesty such a large focus. This was one of the paradoxes of a more open culture.

Many staff metrics were difficult to evaluate. The number of whistleblowing calls per 1,000 staff is a typical metric. The difficulty posed concerns whether a falling number of whistleblowing calls is good - as this could indicate improving conduct, or bad - as this could indicate a culture in which staff no longer feel able to speak-up? All banks were pondering the ambiguity apparent in this metric. A research problem for banks was that these contradictions were present in many of the metrics in use. The puzzles posed by some metrics highlights gaps in current knowledge. Service metrics were generally viewed as a less ambiguous type of measure and their use in management information was growing.

Another research problem for banks was that people together constitute culture, but there few ideas on how to directly measure this. A small minority of banks were attempting to do so, for example adoption of a common meanings, attitudes, or similarity in interpretation of language. Banks more focused at the grassroots level of culture were at a more advanced level in the development of a desired overall measure of organisational culture. Most banks had taken the individual employee as the unit of analysis, and were measuring, for example the number of exams taken.

With the move towards remote working patterns, the fast pace of technological change, new communication media, and secure electronic opportunities and threats, some experts

believed that new technology, through changing the way staff do banking, is making culture more complex to manage and embed, as well as less static than it once was.

The baseline average evidenced was a focus on individual employees as the unit of analysis, from recruitment and professionalism, through whistleblowing and personal conduct cases, to values alignment tests and employee engagement surveys. The employee unit of analysis was highly metricised. Baseline banks were struggling how to begin to measure staff in the round and organisational culture alignment. Upper quartile banks were more advanced with developing metrics to directly measure culture itself through meanings, interpretations, language use, and norms. Lower quartile banks tended to focus on staff in terms of risk and spoke predominantly about whistleblowing, personal conduct, and complaints. They were at an earlier stage of introducing an open and honest environment.

4.6: Customer experience

There was general agreement that customer experience was a relatively straightforward way to develop an understanding about some aspects of culture performance. The calibration of business around customers was general to all the banks and most had similar programmes of work and measurement. There were many ideas of measuring customer experience and outcomes. The focus on measuring customer experience was most apparent on the retail side of banks.

Corporate and investment banking divisions remained more focused on 'products', 'deals' and 'transactions'. There were balanced scorecards that rated individual performance on integrity, conduct, and ethics were in use, so aspects of culture influenced remuneration at the margins. A small number of corporate and investment banking divisions were starting to focus on what 'deals' and 'transactions' get done, and how. This was a very new approach. In the few banks starting to do this we observed strong leadership with a belief that this was

the appropriate path to take. It was unclear whether the board of directors would stay the journey on the disruptive change this was creating within the investment bank.

Outside of the corporate and investment banking divisions, not all of the customer experience metrics in use had come about because of a focus on culture. The Treating Customers Fairly principles of the Financial Conduct Authority (FCA) are now a decade old and require, for example, customer complaints to be recorded and reported. Banks had, however, gone far further with analysis of complaints than required by the FCA. The regulatory definition of a complaint is something not resolved within 24 hours of a customer raising it. Banks were also measuring what customer issues are resolved within 24 hours, and how. They had developed metrics to track what, when, and how complaints were resolved, as well as unresolved complaints. The highest culture performance banks were using content analysis to categorise unresolved complaints in order to identify common weakness. Root cause analysis was a technique used by some banks to indicate common causes and highlight areas of below average culture performance. One bank had started using content analysis of the electronic transcripts of voice calls to appraise the interaction of staff and customers. Metrics based on qualitative information were more time consuming and resource intensive to produce, but less ambiguous and more insightful.

All banks were using 'field' based metrics, including net promoter scores from customer surveys as well as feedback from mystery shoppers sent to branches or call centres to purchase or inquire about particular product or service offerings.

The final set of metrics attempted to measure change in the level of customer trust. A small number of banks were trying to do this. One approach was to employ an external company to create a trust index based on a survey of external perceptions. More personal interaction with customers, including face-to-face time, catch-ups and other interactions may lead customers to trust banks more. One bank was measuring levels of personal interaction. Two banks were interested in measuring whether customer risk appetite responds to improved

levels of trust. The hypothesis was that improved trust may be evidenced by shifts in savings from cash based saving and investment products to risk-based saving and investment products. This followed the concept that low trust customers may be less willing to take financial risks with their bank (Cox, 2008). Customer inertia was expected to stop low trust customers switching to another bank. Experts stressed how important trust was because many customers may be under-risking themselves due to low trust.

The baseline average was one of considerable focus on customer experience. Also at the baseline, balanced scorecards within corporate and investment banking divisions brought integrity, conduct, and ethics into remuneration at the margins. The reward system was downside focused. 100% remuneration was awarded for personal integrity, conduct, and ethics in line with expectations, with less than 100% awarded for lower than expectations. No upside was applied for exceeding expectations. Upper quartile banks were starting to change what, and how, deals and transactions are done within corporate and investment banking. Outside of corporate and investment banking, content analysis was being used on customer transcripts to understand experiences in greater detail. Levels of customer trust were tracked via customer risk appetite, savings rates, and shifts from cash based saving and investment products to riskier saving and investment products. Lower quartile banks had not made inroads into corporate and investment banking. There was, as yet, no focus on root cause analysis, content analysis, or trust indices.

5: Conclusion and recommendations

This paper has reported new research into how small groups of people – officers, directors, and managers – are guiding the governance, design, and delivery of culture programmes at UK listed banks. The method involved some thirty face-to-face semi-structured meeting interviews. A pre-agreed template was used to score and write detailed notes. From many repetitions, themes and cross-interview commonalities, a rich set of findings evolved.

People together constitute the culture. To get to the heart of culture and provide the shift that banks and regulators desire, much more effort needs to be expended at the middle and grassroots level where interrelationships, interactions, intent and action occur. Banks focused on the grassroots level had achieved greater culture performance than banks focused on structure. Structure can help improve culture, but is not enough. We found greater emphasis on structure when culture was set from the top, and greater emphasis on the middle and grassroots when culture programmes were activated within the business.

Improving culture requires sustained commitment, but in our meetings we didn't get the sense that culture programmes was baked-in for the long-term. Board refreshment, change in Chief Executive, Chair, or other key person could halt the positive momentum evident. At the end of the study some of these concerns materialised. One bank changed Chief Executive. The board was reportedly in part concerned about the damage on the profitability of the investment bank from the culture programme (Guardian, 2015). Staff working on culture in the retail bank were applying for other positions. When we came to send our report to those who contributed many had moved on. Only sustained effort is likely to generate long-term culture performance. The Banking Standards Board or Financial Reporting Council could help banks to sustain their effort by encouraging them to publicly set out their commitment and the strength of the long-term policy lock to a culture programme.

Oftentimes when we talk to companies in other sectors we're told that our approach is interesting and helpful, yet banks made no such comment, leaving us to wonder whether some banks are too large to listen? The Banking Standards Board could help to nudge banks into listening to outside views by holding a regular stakeholder conference that formally puts findings and perspectives of stakeholders to banks.

We checked our results against corporate governance and sustainability ranking from third party service providers by looking at each bank's corporate governance rank as reported by two leading UK corporate governance rating agencies. Our results rank banks differently

(Manifest, 2016), suggesting a focus on culture performance contributes a different perspective to that based on more available public information for corporate governance. The only overlap was that the bank lowest in rank on key corporate governance indicators was also most often lowest quartile in our analysis (Manifest, 2016). Statistically, this result could easily be from chance alone.

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